



 **Broyhill**



Lane



Thomasville



1999 ANNUAL REPORT

Furniture Brands INTERNATIONAL

*Furnishing
The American Dream*

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COVER PHOTOGRAPHS

TOP: The winter pine bedroom furniture is from Broyhill's Continental Tapestry collection, the company's most successful product introduction ever. **MIDDLE:** Lane expects its new Lane Leather upholstery collection to be a significant source of growth. **BOTTOM:** The Whitehead Street dining room furniture is part of the best-selling Ernest Hemingway Collection by Thomasville.

FINANCIAL HIGHLIGHTS

Year Ended December 31,

(In thousands, except per share, employee, and statistical data)

| | 1999 | 1998 | 1997 | 1996 | 1995 |
|---|-------------|-------------|-------------|-------------|-------------|
| From continuing operations: | | | | | |
| Net sales | \$2,088,112 | \$1,960,250 | \$1,808,276 | \$1,696,795 | \$1,073,889 |
| Net earnings ¹ | 111,910 | 90,077 | 67,053 | 54,222 | 29,463 |
| As a percentage of net sales | 5.4% | 4.6% | 3.7% | 3.2% | 2.7% |
| Net earnings — as adjusted ² | 122,429 | 101,053 | 79,742 | 66,919 | 41,933 |
| As a percentage of net sales | 5.9% | 5.2% | 4.4% | 3.9% | 3.9% |
| Per share of common stock (diluted): | | | | | |
| Net earnings ¹ | \$ 2.14 | \$ 1.67 | \$ 1.15 | \$ 0.88 | \$ 0.58 |
| Net earnings — as adjusted ² | \$ 2.34 | \$ 1.88 | \$ 1.36 | \$ 1.08 | \$ 0.83 |
| Financial condition at year-end: ³ | | | | | |
| Working capital | \$ 518,036 | \$ 509,148 | \$ 482,288 | \$ 462,661 | \$ 455,036 |
| Current ratio | 4.4 to 1 | 4.1 to 1 | 4.5 to 1 | 4.2 to 1 | 4.4 to 1 |
| Total assets | 1,288,834 | 1,303,204 | 1,257,236 | 1,269,204 | 1,291,739 |
| Total long-term debt | 535,100 | 589,200 | 667,800 | 572,600 | 723,679 |
| Shareholders' equity | \$ 474,197 | \$ 413,509 | \$ 323,322 | \$ 419,657 | \$ 301,156 |
| Average common shares (diluted) | 52,335 | 53,809 | 58,473 | 61,946 | 50,639 |
| Number of employees | 21,400 | 20,700 | 20,700 | 20,800 | 20,700 |

¹ Net earnings before nonrecurring gains, net of taxes and extraordinary item, net of taxes.

² Adjusted to remove depreciation and amortization related to the 1992 asset revaluation, net of taxes.

³ 1995 balances reflect the acquisition of Thomasville Furniture Industries, Inc. as of the last business day of that year.



Net Sales



EBITDA^b

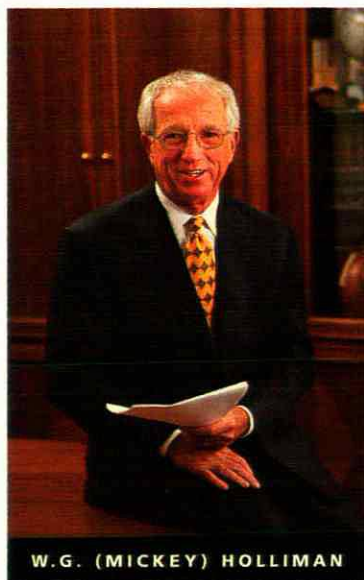


% represents EBITDA to net sales

Earnings Per Share^c



a Pro forma for Thomasville acquisition.
b Earnings before interest expense, income taxes, depreciation, and amortization.
c Excludes nonrecurring gains and extraordinary items.



W.G. (MICKEY) HOLLIMAN

*Chairman of the Board, President
and Chief Executive Officer*

Industry demographics are excellent.

1 Residential furniture industry growth has dipped just four times since 1971. The industry, as the graphs on these pages show, is driven by demographics and lifestyle changes. **2** Home ownership rates are at record levels and home owners outspend renters 2-to-1 on furniture purchases. **3** Over the last 20 years, the average square footage of new homes has increased by 30%. Today 33% of new homes have four or more bedrooms compared with 20% of new homes 20 years ago.

Furniture Brands International
had another excellent year in 1999.

We achieved our fourth consecutive year of record sales, net earnings, and net earnings per common share. While we are disappointed by the market valuation afforded our stock during 1999 and subsequently, we are confident this weakness is due to the perceived economic cycle and interest rate sensitivity and, in no way reflects upon the Company's performance. Industry demographics are excellent, which we believe will more than offset any future economic downturn. Our strategic plan for growth in sales and earnings remains rock solid. The Company is well-positioned, financially and operationally, to pursue a commitment to growth.

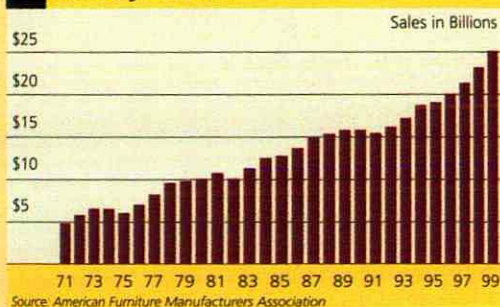
Financial Strength

Net sales, net earnings, and net earnings per common share all grew at excellent rates in 1999. Net sales, at \$2,088.1 million, increased 6.5% and were all internally generated. Net earnings and net earnings per common share were \$111.9 million and \$2.14, respectively, representing growth of 24.2% and 28.1%, respectively. This financial performance allowed the Company to retain its position as the largest and most profitable residential furniture manufacturer in the United States.

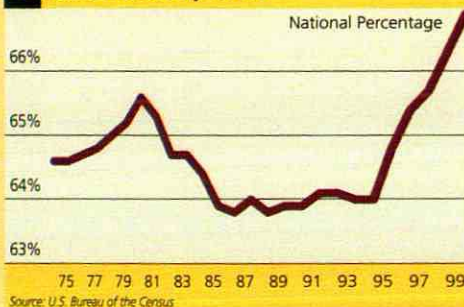
A key driver in the growth of earnings has been consistent improvement in operating profitability. The Company's EBITDA margin (earnings before interest expense, income taxes, and depreciation and amortization), which factors out the negative impact of fresh-start accounting, increased to 12.8% in 1999 from 12.2% in 1998. However, as a result of a number of cost reduction and asset utilization initiatives undertaken during the last few years, we are now at a sustainable 13.0% EBITDA margin, and our goal is to achieve a 13.5% rate by the end of 2000.

Our financial strength was enhanced by growing operating cash flow to almost \$150 million in 1999 as we intensified our focus on working capital investment along with improvement in operating profitability. This cash flow was used to fund an ongoing capital expenditure plan of \$49 million and an aggressive deleveraging program of over \$54 million. In addition, due to the very low market valuation afforded our equity during 1999, we invested almost \$60 million in repurchasing 3.1 million shares of our common stock. Going forward, we expect continued growth in operating cash flow, which will be used to fund manufacturing technology and capacity needs and to further leverage our balance sheet.

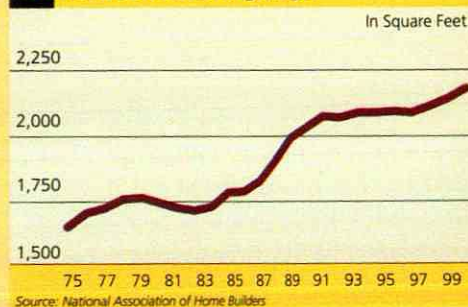
1 Industry Growth



2 Home Ownership Rates



3 Houses Are Getting Larger



Operational Excellence

To achieve the high levels of operating performance necessary to consistently grow sales and earnings, a number of important actions were initiated during the past year.

At the start of 1999, Highland House was transferred to Thomasville from Broyhill and, beginning this new year, reporting responsibilities for certain Lane divisions were transferred to Thomasville or moved to different management. These organizational changes were undertaken to better position each operating division for future growth while streamlining the Company's structure.

During 1999, a comprehensive agreement was entered into with America's Research Group — a leading consumer research company — to provide, on an exclusive basis, critical feedback from consumers prior to investing in product and marketing programs. To supplement our expanding domestic capacity and to ensure quality control and timely delivery of products manufactured offshore, we retained, also on an exclusive basis, Outlook International. This newly formed company specializes in coordinating and overseeing the manufacture, quality control, and shipping logistics of furniture produced in the Far East.

Finally, we continued to focus our efforts on reducing SKU levels, developing vendor alliances, and increasing working capital turnover. A new initiative undertaken

during the year was the requalification of our customer base, which eliminates dealers who exhibit higher credit risks and/or limited growth potential or do not meet our profit objectives. We estimate this action negatively impacted sales growth by 2-3 percentage points in 1999, but will improve operating profitability in the future.

Growth Commitment

The Company is committed to growth — growth in all areas of our business including sales, earnings, market share, and shareholder value. We recognize that growth comes from not only leveraging the Company's existing resources, but also from acquiring new companies to provide access to broader product lines and new markets.

Sales growth will come from improving product development, marketing, and sales programs, while increasing our sourcing capacity — both domestic and foreign-based. Our recently announced organizational changes along with initiatives at America's Research Group and Outlook International, among others, will assist in these endeavors. Earnings will grow from the additional sales as well as from higher operating profit margins, benefiting from better asset utilization and cost-reduction programs, and reduced interest expense as we focus our free cash flow on deleveraging the balance sheet.

Our increasing financial strength will allow us to pursue an active acquisition

program designed to significantly grow market share and to improve shareholder value. We have worked diligently over the past several years to prepare the Company's management, operations and finances to take on the added burdens, and opportunities, of major acquisitions. We expect to be a major player in the ongoing consolidation of our industry and to remain America's largest home furniture manufacturer.

This past year was another great year. The residential furniture industry continues to enjoy a prosperous period as the overall economic fundamentals are very positive. Although interest rates have been rising in recent months, we expect no significant downturn since our industry — residential furniture — is largely a maintenance and refurbishing business driven by demographics and lifestyle changes. The demographics are excellent, and will be for many years, while lifestyle changes continue to be directed toward the home environment. Today, Furniture Brands International is truly "Furnishing the American Dream."

As always, the management and employees appreciate the support of our shareholders, suppliers, and customers.

Sincerely,



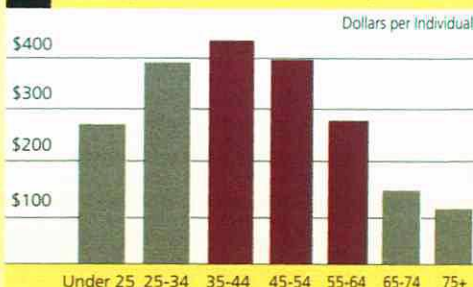
W.G. (Mickey) Holliman
Chairman of the Board, President
and Chief Executive Officer

4 Age Group Growth Trends



Source: American Demographics

5 Average Annual Furniture Expenditures



Source: American Demographics

Demographics are driving furniture industry growth. **4 5** Furniture Brands International's targeted age groups, between 35 and 64, represent the fastest-growing population segments and more importantly, the highest-spending consumers for furniture.



Among full-line furniture manufacturers, Broyhill has the highest

brand awareness with approximately 90 percent of consumers recognizing the Broyhill name. Broyhill, founded in 1905, produces case goods, upholstered furniture, and occasional pieces in country, traditional, European, and contemporary styles, priced mostly in the "better" category. The above photo is from the Point Sur collection.

Broyhill last year launched a new strategic plan designed to broaden its customer base. While maintaining its focus on the "better" category with the introduction of Continental Tapestry, it also introduced new collections priced in the "good" and "best" segments of the furniture market.

With these introductions, Broyhill Furniture Industries now has whole-house collections in the three major segments — "good," "better," and "best" — for the first time in many years. The collections were well-received, marking a successful first year for the new strategy. Two collections — Continental Tapestry and Broyhill GX — were introduced in April 1999.

Continental Tapestry, priced in the "better" category, is the most successful product introduction in the history of Broyhill. The collection has a deep, honey-gold antique finish, made with pine solids and natural oak veneers. It includes a variety of living room, dining room, bedroom, and upholstery pieces that can be easily coordinated with Broyhill upholstery.

The GX collection is a whole-house collection priced in the "good" segment of the market. With GX, Broyhill set out to create a stylish, fashionable, yet simple collection that projects a more youthful image and is targeted to the important Generation X consumer. To reinforce this image, Broyhill placed ads on MTV, VH1, and Entertainment Network. Many dealers have established galleries entirely dedicated to the GX collection.

A third new collection, introduced in October 1999, was Point Sur in the "best" segment, a collection of upholstered furniture and case goods in the California casual style. Point Sur is the first of the Signature Series collections from Broyhill, which will have higher styling and significantly improved construction techniques. The collection, scheduled to begin shipping in April 2000, has been very successful with retailers.

Another dramatic success is Broyhill Express, an upholstery quick-ship program, which shipped its first goods in 1998. The program was introduced in response to consumer desire to have upholstered products delivered more quickly. Broyhill Express products, limited to 10 groups of the company's best-selling upholstery, are shipped in only three weeks. The program delivers savings to Broyhill in the form of better pricing on fabrics for Express products and more efficient plant throughput.

Broyhill increased its upholstery capacity in 1999 with the opening of a 26,000 square-foot sewing facility in Spindel, North Carolina. Broyhill has also recently announced plans to construct a new, full-line, state-of-the-art upholstery plant in western North Carolina;



DENNIS BURGETTE

President and CEO, Broyhill

Why did you introduce new collections in the "good" and "best" categories?

We're entering new price categories in a strategic effort to reach new consumers. We will, however, remain solidly positioned in the "better" category, which has the broadest consumer appeal.

What is the goal of the international strategic growth plan?

Our long-term goal is to increase international sales to 10 percent of total sales, which is in line with the corporate goal.

Is Broyhill importing more products than in previous years?

We've increased importing to capitalize on growth opportunities. Importing the Point Sur collection enabled us to enter the "best" category.

a major expansion of its showroom in High Point, North Carolina, which will increase display space by 53 percent; and construction of a new 206,000 square foot Import Logistics Facility in Lenoir, North Carolina, which will support the growing import products business.

To complement its domestic manufacturing operations, Broyhill expanded its commitment to importing products. The entire Point Sur collection is imported, and Broyhill is importing certain pieces of the GX collection. In both cases, the imports enable Broyhill to maintain growth and establish the company in price segments where it hasn't had collections.



Broyhill



► Focus on Distribution

Consumers can purchase Broyhill furniture at more than 5,000 retail locations nationwide and in 52 countries around the world. At the end of 1999, there were 869 galleries and furniture centers dedicated to Broyhill furniture.

In 1999, Broyhill launched an international strategic growth plan by building an international sales organization, with a vice president for international sales and four global sales managers. That strategy resulted in the addition of nearly 20 new, nondomestic accounts, including the largest distributors in Japan and the United Kingdom. In 2000, Broyhill will participate for the first time in international markets in Toronto, Singapore, and Tokyo to capitalize on the momentum from last year.



Broyhill introduced a highly successful marketing strategy last year, a fully integrated marketing and advertising program that featured campaigns for six select collections. Each of the campaigns followed a similar roll-out strategy, beginning with ads to the trade to prepare dealers for an upcoming sales event. Two to three months later, Broyhill targeted consumers through advertising on national cable television networks and shelter and women's service magazines. Finally, dealers were offered options to tie their local advertising with the national campaign.

► Focus on Marketing

In 1999, Broyhill split its advertising evenly between print and television, compared with 1998, when print represented about 60 percent of advertising. The operating company will continue to explore the most effective advertising mix between print and television during 2000.

Clockwise from upper left: This blue china cabinet is from the hues collection of casual dining furniture; the Signature Series living room furniture is aimed at the upper-price segment; Fontana case goods and hues upholstery combine to create a comfortable, casual atmosphere; this dark walnut bedroom, from the GX collection is a bold, contemporary design suitable for evolving interior spaces; the GX living room furniture is well-designed and solidly constructed with a natural finish and simple lines; the Louis Philippe design of Maison Lenoir dining room furniture is crafted from hardwood solids and cherry veneers.



Lane is the world's
largest manufacturer
of reclining furniture
and the second-largest
producer of recliners.

Lane

The Action Industries
division of Lane
Furniture Industries,
which operates the most
advanced furniture man-
ufacturing facilities in
the world, offers more
than 40 styles of reclin-
ing furniture. Lane also
manufactures complete
case goods collections,
cedar chests, occasional
wood pieces, and 18th
century reproductions,
as well as indoor/out-
door wicker and rattan,
exposed aluminum, and
teak ensembles. The
Chisolm Group of the
Lane Leather collection
is shown at left.

Lane's largest division, Action Industries, last year introduced its first stationary furniture ever, the Lane Leather collection of stationary sofas, loveseats, sectionals, and chairs and ottomans. One reason for the collection's success is the rapid delivery program, which is far quicker than competitors' programs.

The Lane Leather introduction in March 1999 highlighted an excellent year for Lane Furniture Industries. Lane Leather represents an important source of growth as leather is the fastest-growing category in upholstered furniture. The collection, priced in the "best" category, comes in three styles — American Ranch, American Traditional, and Urban Contemporary.

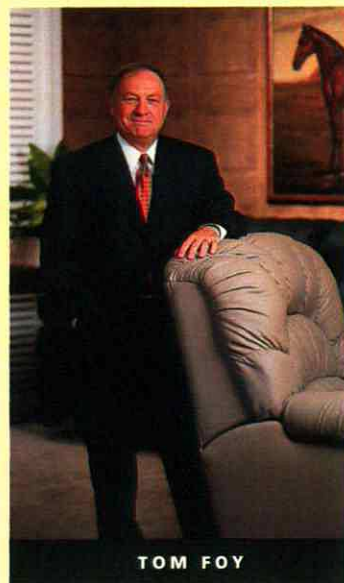
Inspired by the hues of the tumbleweed, sagebrush, and the distant mesa, the American Ranch Collection captures the spirit and colors of the American West. American Traditional Leather captures the essence of a traditional setting. These classically styled pieces are excellent examples of furniture that will never go out of style. Urban Contemporary Leather focuses on unique and interesting colors with a fashionable flair for those on the leading edge of design.

Dealer and consumer response has been exceptional. Management believes design and pricing play big roles in the collection's success, bolstered by Lane's delivery program that is far quicker than competitors' programs. Lane offers three delivery choices: 30-day delivery; 15-day expedited delivery; and five-day delivery for in-stock pieces.

Recliners remain the mainstay of the Action product line, accounting for approximately 60 percent of volume. In 1999, Action re-introduced the Classic Flexback Chairs and Ottomans line of recliners, and introduced a new line of motion furniture called Arctic Zone.

The Flexback Chairs have a new reclining mechanism chosen after extensive consumer research by America's Research Group. Action installed the mechanism that consumers clearly preferred, calling it easy to operate and very smooth. Dealers were shown the results of the research at the October market, and the response has been outstanding.

With the Arctic Zone Glacial motion sectional, Action remains on the leading edge of design in motion furniture. The main innovation in the Glacial is a built-in portable cooler that stores food or beverages at approximately 40 degrees, and can be removed to use elsewhere if desired. The same unit can heat items up to 120 degrees. The Glacial also offers three hidden recliners, a massage unit, and a cordless phone.



TOM FOY
President and CEO, Lane

Why did Action introduce its first-ever stationary chairs?

We believe that the leather stationary segment offers us excellent growth prospects, and that was confirmed by consumer research from America's Research Group.

Are you active on the Internet?

Our Web site has had more than 8 million hits, so we are very active. The site showcases our outstanding products and then leads consumers to dealer showrooms.

Has the new Lane Leather collection helped expand distribution?

While it has brought some new dealers on board, the most important impact is that existing Lane dealers are replacing previous leather suppliers with Lane Leather products, indicating that we're gaining floor space with this collection.

LANE DIVISION introduced the Williamsburg collection last year, which is based on 18th-century designs and is licensed by the Colonial Williamsburg Foundation. The Lane Division also introduced the Down East collection, a cottage-style furniture line representative of the portion of the Maine coast called Down East. The Lane Division remains the dominant company in the cedar chest business with more than 90 percent of the market.

LANEVENTURE is the combination of the former Venture and Lane Upholstery divisions. The change is intended to capitalize on consumer awareness of the Lane name, while establishing Lane's profile in the outdoor and wicker rattan furniture niche. The division entered two new markets in 1999 — exposed aluminum and teak. Its Transitions line, which had an outstanding introduction in September, is the division's first exposed aluminum product. Laneventure introduced two teak collections in 1999, Provence and Manhattan, both aimed at the high-end outdoor market.



Focus on Distribution

There were 242 Action Comfort Showcase Galleries dedicated to Action motion and reclining furniture at the end of 1999. Action has approximately 3,000 customers worldwide including independent furniture dealers, department stores, and mass merchants, with showrooms in Germany, England, Holland, Singapore, and Mexico, and its products are shipped to 65 countries outside the United States.

Approximately 62 dealers have set up Lane Division galleries dedicated entirely to Lane Division products, and by the end of 2000, the division expects to have several hundred newly designed Cedar Boutiques that will offer dealers the opportunity for higher sales per square foot than the old boutiques.

Lane





Opposite page: The Flexback Chair and Ottoman (top left) comes in traditional, transitional, and contemporary styles; (top right) the ComfortKing recliner offers the strongest frame and mechanism in the industry; (middle) the Milan leather furniture has a sophisticated, contemporary European flair; (bottom) the Snuggler series is especially created for smaller living spaces.

This page: Laneventure, represented by the outdoor wicker rattan furniture (top left) and the Bali bed (top right), will capitalize on consumer awareness of the Lane name and establish Lane's profile in the outdoor and wicker rattan furniture niche; (middle) furniture from Lane Division's Down East collection of cottage style furniture is reminiscent of the Maine coast; (bottom) this Williamsburg bed is based on 18th-century designs licensed from the Colonial Williamsburg Foundation.

► Focus on Marketing

Action runs coordinated mixed-media promotions that employ national television and print media, the Internet and tie-ins with local dealers. Actor Jack Palance was signed on as a spokesman for the Lane Leather collection. The division also sponsors events, such as ice skating, gymnastics, and women's golf, which attract a large percentage of the company's target audience.

The Lane Division spends 80 percent of its advertising funds on print media, with the rest going to TV. In 2000, Laneventure will spend 60 percent of its budget on cable television networks such as A&E and HGTV.



Thomasville

Consumers have consistently

rated Thomasville as the "highest-quality" residential furniture brand. Founded in 1904, Thomasville is famous for its bedroom and dining room wood furniture collections, although upholstery continues to grow as a percentage of sales. Its products are priced in the "best" and "premium" categories. This photo shows the Kilimanjaro bed from the Ernest Hemingway Collection.

Thomasville's Ernest Hemingway Collection, which was shipped to dealers in early 1999, has already become one of Thomasville's best-selling collections. The company added to the Hemingway collection in 1999 and also introduced two new major collections.

Thomasville had a record year in 1999 and achieved the highest percentage growth in sales and operating earnings among the Furniture Brands operating companies. The company offers a complete selection of wood and upholstered furniture in a wide range of styles, including European traditional, formal 18th-century, casual contemporary, and classic American style.

The Hemingway collection was a major contributor to Thomasville's success. Last year, Thomasville added nine new pieces to the Hemingway Kenya sub-collection, and in 2000, it will capitalize on the collection's success by introducing an extension to the line called "Paris," inspired by the award-winning author's residence in that city. In October 1999, Thomasville introduced two major collections, one that fits into the American cottage style, the other in the European traditional style.

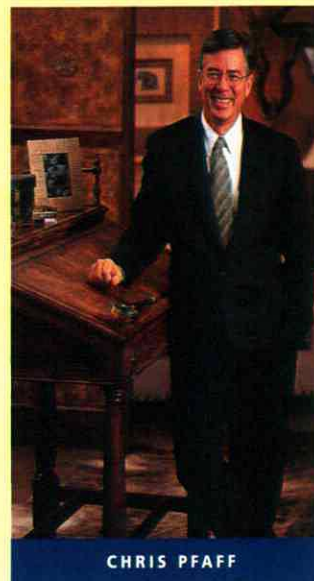
The first, Summer Cottage, is a whole-house collection of casual pieces for bedrooms, dining rooms, and living/family rooms. The furniture uses pine and oak woods with a creamy white-painted finish, and includes a wicker rocking chair. The second collection, Bellasera (which means "beautiful evening" in Italian), is more formal, classical-European furniture. The collection contains case goods, and fabric and leather upholstered pieces.

Overall, leather upholstery products for Thomasville achieved double-digit growth rates last year. Such products now represent more than one-third of the company's upholstery sales.

Another promising development for Thomasville last year was the signing of a licensing agreement with Home Depot, the world's largest home improvement retailer. Under the agreement, Home Depot will sell high-quality kitchen and bathroom cabinets under the Thomasville brand name beginning in mid-2000. This is the first time Thomasville has licensed its brand name for use on a product other than furniture.

HIGHLAND HOUSE last year introduced the Rue de Provence collection of Provençal French bedroom pieces, occasional furniture, and upholstery pieces that use unique fabric selections supplied exclusively to Highland House from Southern France.

In January 2000, the division announced a licensing agreement with Harrods, the famous London department store, under which Highland House will design and manufacture the Harrods of Knightsbridge Fine Furniture Collection. The collection will be based on classic English styles inspired by furniture and other designs from the Harrods archives.



CHRIS PFAFF

President and CEO, Thomasville

Will you continue to expand Thomasville Home Furnishings Stores in 2000?

Consumer interest in Thomasville products has never been higher. We expect to open an average of one new, independently owned Thomasville store every three weeks in 2000.

What makes the Hemingway collection so successful?

It is beautiful, well-designed, and well-crafted furniture in various styles. And Ernest Hemingway continues to fascinate the general public — more than 1.5 million of his books are sold worldwide every year.

How important is the Internet in your marketing program?

Our Web site is steadily growing in importance. Thousands of people visit our site daily, and the average length of their visits and the number of pages they view continues to increase.

HBF, the office furniture and textiles division, reported its third straight year of double-digit growth in revenues and profit. HBF is making an aggressive move into case goods — desks, credenzas, and similar office furniture — this year with a collection called Horizons. It also began aggressively marketing its fabrics expertise through its HBF Textiles division.

PEARSON prides itself on being originators of unique and innovative styling in the premium upholstery business. A key event of the year was an exclusive arrangement to use finely woven decorative fabrics in exclusive patterns and colors from an Italian fabric firm. All Pearson furniture is made-to-order, and marketed through premium-quality retail stores and the interior design trade.

HICKORY CHAIR expanded beyond 18th-century reproductions last year for the first time with its Thomas O'Brien collection, introduced in October. The collection includes upholstery, chairs, tables, beds, and cabinetry in O'Brien's acclaimed "warm modernist" style. The division also introduced Grand Vista, a collection of large scale, casual reproductions from the Museum of Santa Fe. These collections have attracted new retailers to Hickory Chair and have helped solidify its distribution west of the Mississippi.

FOUNDERS FURNITURE, which produces promotional furniture, and CREATIVE INTERIORS, which manufactures ready-to-assemble furniture, continue to introduce stylish, innovative products in their respective niches.



Thomasville



Clockwise from top of page 14:

The WorkStyles home workstation with cherry finish is perfect for the fully wired home office; this Summer Cottage bedroom is reminiscent of an American summer country cottage; leather pieces, such as this Christina sofa, represent a growing portion of Thomasville's upholstery sales; this Martinique armoire is influenced by the Louis Philippe period of French furniture design; these bedroom pieces are from the Bellasera collection of classical European furniture; the Marilyn chair in lipstick red velvet is a contemporary design with a retro look; the Adonis sofa, Winfrey chair and Encounter tables highlight the lush comfort and stylish flair for which Thomasville is famous.

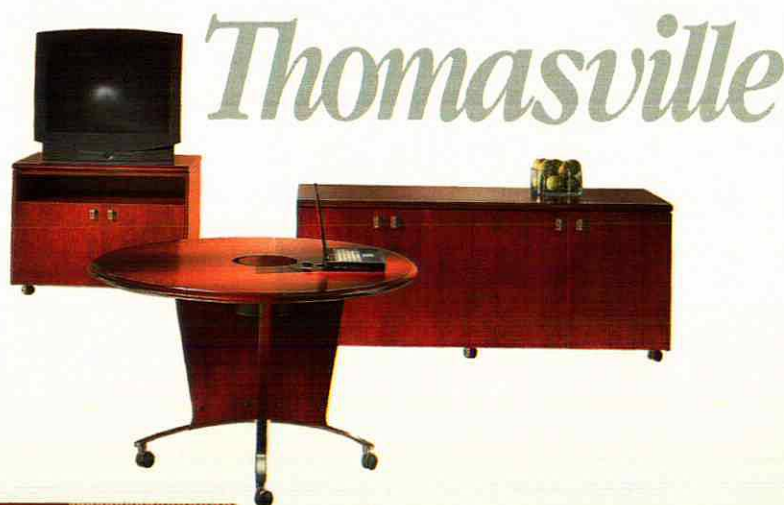


Focus on Marketing



In August 1999, Thomasville initiated the first phase of a major change in its marketing approach. For the two weeks before Labor Day, the operating company ran commercials for the Ernest Hemingway Collection on national cable networks. The next phase goes into effect in 2000, when Thomasville plans to run six major cable advertising campaigns promoting a mix of Hemingway products and other Thomasville collections. The campaign is intended to steer consumers to Thomasville dealers and to broaden the appeal of the company's brand name.

From top to bottom: The Genevieve chair is part of Highland House's Rue de Provence Provençal French collection; unique, innovative styling and fabrics in exclusive patterns and colors set Pearson premium upholstery, like this sofa, apart from any other manufacturer; Hickory Chair's new Grand Vista collection is in the North American country casual furniture style; the Horizons office furniture marks HBF's move into office case goods; this youth bedroom suite is a latest design from Founders Furniture; this Creative Interiors RTA corner computer desk features unique, patent-pending revolving storage cubes in the hutch.



Thomasville



► Focus on Distribution

In 1999, the number of Thomasville Home Furnishings Stores increased to 120, and management projects that another 20 will open in 2000. In addition, a new design for the 235 existing Thomasville Galleries contains more display space for Thomasville products, and in return, gives dealers greater sales per square foot. Thomasville furniture is sold throughout the United States and in 28 countries.

Pearson distributes its products primarily through premium-quality dealers and the interior design trade. Hickory Chair also distributes through premium-quality dealers including 59 gallery locations.

Creative Interiors, which sells primarily to discount retailers, signed a significant distribution agreement with Staples, the office supply chain.

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Results of Operations

As an aid to understanding the Company's results of operations on a comparative basis, the following table has been prepared to set forth certain statements of operations and other data for 1999, 1998, and 1997.

| (Dollars in millions) | Year Ended December 31, | | | | | |
|--|-------------------------|----------------|-----------|----------------|-----------|----------------|
| | 1999 | | 1998 | | 1997 | |
| | Dollars | % of Net Sales | Dollars | % of Net Sales | Dollars | % of Net Sales |
| Net sales | \$2,088.1 | 100.0% | \$1,960.2 | 100.0% | \$1,808.3 | 100.0% |
| Cost of operations | 1,498.6 | 71.8 | 1,406.4 | 71.7 | 1,319.5 | 73.0 |
| Selling, general and administrative expenses | 321.2 | 15.4 | 314.8 | 16.1 | 286.1 | 15.8 |
| Depreciation and amortization | 56.5 | 2.7 | 55.5 | 2.8 | 56.0 | 3.1 |
| Earnings from operations | 211.8 | 10.1 | 183.5 | 9.4 | 146.7 | 8.1 |
| Interest expense | 37.6 | 1.8 | 43.5 | 2.2 | 42.7 | 2.4 |
| Other income, net | 2.6 | 0.1 | 12.1 | 0.6 | 3.3 | 0.2 |
| Earnings before income tax expense | 176.8 | 8.5 | 152.1 | 7.8 | 107.3 | 5.9 |
| Income tax expense | 64.9 | 3.1 | 54.2 | 2.8 | 40.2 | 2.2 |
| Net earnings | \$ 111.9 | 5.4% | \$ 97.9 | 5.0% | \$ 67.1 | 3.7% |
| Gross profit ¹ | \$ 550.3 | 26.4% | \$ 515.5 | 26.3% | \$ 450.7 | 24.9% |

¹The Company believes that gross profit provides useful information regarding a company's financial performance. Gross profit has been calculated by subtracting cost of operations and the portion of depreciation associated with cost of goods sold from net sales.

| (Dollars in millions) | Year Ended December 31, | | |
|---|-------------------------|-----------|-----------|
| | 1999 | 1998 | 1997 |
| Net sales | \$2,088.1 | \$1,960.2 | \$1,808.3 |
| Cost of operations | 1,498.6 | 1,406.4 | 1,319.5 |
| Depreciation (associated with cost of goods sold) | 39.2 | 38.3 | 38.1 |
| Gross profit | \$ 550.3 | \$ 515.5 | \$ 450.7 |

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998

Net sales for 1999 were \$2,088.1 million compared to \$1,960.2 million for 1998, an increase of \$127.9 million or 6.5%. The improved sales performance for 1999 occurred at each operating company and ranged, in varying degrees, across all product lines. The increase in net sales was achieved through continued introductions of new products, emphasis on the Company's brand names, and expansion of distribution.

Cost of operations for 1999 was \$1,498.6 million compared to \$1,406.4 million for 1998, an increase of 6.6%. Cost of operations as a percentage of net sales increased from 71.7% for 1998 to 71.8% in 1999 primarily due to the disposal of low-margin and nonproductive inventories at less than normal profit margins, and to a lesser degree, from short-term manufacturing inefficiencies at several plants caused by an evolving change in case goods product mix.

Selling, general and administrative expenses increased to \$321.2 million in 1999 from \$314.8 million in 1998, an increase of 2.0%. As a percentage of net sales, selling, general and administrative expenses decreased from 16.1% for 1998 to 15.4% for 1999 because of continued tight control over expenses.

Depreciation and amortization for 1999 was \$56.5 million compared to \$55.5 million in 1998, an increase of 1.8%. The amount of depreciation and amortization attributed to the "fresh-start" reporting was \$13.2 million and \$13.7 million in 1999 and 1998, respectively.

Interest expense for 1999 totaled \$37.6 million compared with \$43.5 million in 1998. The decrease in interest expense reflects the Company's debt reduction program and reduced interest rates.

Other income, net for 1999 totaled \$2.6 million compared to \$12.1 million for 1998, which included a nonrecurring cash dividend of \$9.4 million. For 1999, other income consisted of interest on short-term investments of \$0.4 million and other miscellaneous income and expense items totaling \$2.2 million.

Income tax expense for 1999 totaled \$64.9 million, producing an effective tax rate of 36.7% compared with an effective tax rate of 35.6% for 1998. The effective tax rates for both periods were adversely impacted by certain nondeductible expenses incurred and provisions for state and local income taxes. The effective tax rate for 1998 was favorably impacted by the nontaxable portion of the \$9.4 million cash dividend.

Net earnings per common share on a diluted basis were \$2.14 and \$1.82 for 1999 and 1998, respectively. Weighted average shares outstanding used in the calculation of net earnings per common share on a basic and diluted basis were 50,968,000 and 52,335,000 in 1999, respectively, and 52,095,000 and 53,809,000 in 1998, respectively.

Gross profit for 1999 was \$550.3 million compared with \$515.5 million in 1998, an increase of 6.8%. The increase in gross profit margin to 26.4% in 1999 from 26.3% in 1998 was due to improved manufacturing capacity utilization, partially offset by an inventory reduction program and a change in case goods product mix.

Year Ended December 31, 1998 Compared to Year Ended December 31, 1997

Net sales for 1998 were \$1,960.2 million compared to \$1,808.3 million for 1997, an increase of \$151.9 million or 8.4%. The improved sales performance for 1998 occurred at each operating company and ranged, in varying degrees, across all product lines. The increase in net sales was achieved through continued introductions of new products, emphasis on the Company's brand names, and expansion of distribution.

Cost of operations for 1998 was \$1,406.4 million compared to \$1,319.5 million for 1997, an increase of 6.6%. Cost of operations as a percentage of net sales decreased from 73.0% for 1997 to 71.7% in 1998 primarily due to improved manufacturing capacity utilization, reduced stock keeping units, and ongoing cost reduction programs.

Selling, general and administrative expenses increased to \$314.8 million in 1998 from \$286.1 million in 1997, an increase of 10.0%. As a percentage of net sales, selling, general and administrative expenses increased from 15.8% for 1997 to 16.1% for 1998 because of tight spending controls implemented during the fourth quarter of 1997 to help offset an operational restructuring at Thomasville and a temporary promotional product mix change.

Depreciation and amortization for 1998 was \$55.5 million compared to \$56.0 million in 1997, a decrease of 0.9%. The amount of depreciation and amortization attributable to the "fresh-start" reporting was \$13.7 million and \$16.4 million in 1998 and 1997, respectively.

Interest expense for 1998 totaled \$43.5 million compared with \$42.7 million in 1997. The increase in interest expense reflects additional long-term debt incurred at the end of the second quarter of 1997 to finance the Company's repurchase of approximately 10.8 million shares of its common stock.

Other income, net for 1998 totaled \$12.1 million compared to \$3.3 million for 1997. For 1998, other income consisted of interest on short-term investments of \$0.9 million, a cash dividend (nonrecurring) of \$9.4 million received by the Company relating to its minority investment in a company which leases exhibition space to furniture and accessory manufacturers, and other miscellaneous income and expense items totaling \$1.8 million.

Income tax expense for 1998 totaled \$54.2 million, producing an effective tax rate of 35.6% compared with an effective tax rate of 37.5% for 1997. The effective tax rates for both periods were adversely impacted by certain nondeductible expenses incurred and provisions for state and local income taxes. The effective tax rate for 1998 was favorably impacted by the reduced effect of the nondeductible expenses as a percentage of pretax earnings and the nontaxable portion of the \$9.4 million cash dividend.

Net earnings per common share on a diluted basis were \$1.82 and \$1.15 for 1998 and 1997, respectively. Weighted average shares outstanding used in the calculation of net earnings per common share on a basic and diluted basis were 52,095,000 and 53,809,000 in 1998, respectively, and 56,438,000 and 58,473,000 in 1997, respectively.

Gross profit for 1998 was \$515.5 million compared with \$450.7 million in 1997, an increase of 14.4%. The increase in gross profit margin to 26.3% in 1998 from 24.9% in 1997 was due to improved manufacturing capacity utilization, reduced stock keeping units, and ongoing cost reduction programs.

Financial Condition and Liquidity

Liquidity

Cash and cash equivalents at December 31, 1999 totaled \$7.4 million compared to \$13.2 million at December 31, 1998. For 1999, net cash provided by operating activities totaled \$148.6 million. Net cash used by investing activities totaled \$48.5 million. Net cash used in financing activities totaled \$105.9 million, including the net payment of \$54.1 million of long-term debt and the repurchase of 3.1 million shares of common stock for \$59.7 million.

Working capital was \$518.0 million at December 31, 1999 compared to \$509.1 million at December 31, 1998. The current ratio was 4.4-to-1 at December 31, 1999 compared to 4.1-to-1 at December 31, 1998. The modest increase in working capital between years is primarily the result of the Company's focus on efficient management of individual working capital components.

At December 31, 1999, long-term debt totaled \$535.1 million compared to \$589.2 million at December 31, 1998. The decrease in indebtedness was funded by cash flow from operations. The Company's debt-to-capitalization ratio was 53.0% at December 31, 1999 compared to 58.8% at December 31, 1998.

Financing Arrangements

To meet short-term capital and other financial requirements, the Company maintains a \$600.0 million revolving credit facility as part of its Secured Credit Agreement with a group of financial institutions. The revolving credit facility allows for both issuance of letters of credit and cash borrowings. Letter of credit outstandings are limited to no more than \$60.0 million. Cash borrowings are limited only by the facility's maximum availability less letters of credit outstanding. At December 31, 1999, there were \$317.5 million of cash borrowings outstanding under the revolving credit facility and \$39.8 million in letters of credit outstanding, leaving an excess of \$242.7 million available under the revolving credit facility.

The Company believes its Secured Credit Agreement, together with cash generated from operations, will be adequate to meet liquidity requirements for the foreseeable future.

Other

Market Risk

The Company is exposed to market risk from changes in interest rates. The Company's exposure to interest rate risk consists of its floating rate Secured Credit Agreement. Interest rate swaps are used to reduce the Company's exposure to increases in interest rates.

Recently Issued Statements of Financial Accounting Standards

In June, 1998 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 (SFAS No. 133) "Accounting for Derivative Instruments and Hedging Activities." This statement standardizes the accounting for derivative instruments by requiring that an entity recognize the items as assets and liabilities in the statement of financial position and measure them at fair value. SFAS No. 133 was to become effective for fiscal years beginning after June 15, 1999; however, in June, 1999 Statement of Financial Accounting Standards No. 137 was issued extending the effective date to June 15, 2000. The company does not believe the adoption of this statement will have a material impact on its financial statements.

Forward-Looking Statements

From time to time, the Company may make statements which constitute or contain "forward-looking" information as that term is defined in the Private Securities Litigation Reform Act of 1995 or by the Securities and Exchange Commission in its rules, regulations, and releases. The Company cautions investors that any such forward-looking statements made by the Company are not guarantees of future performance and that actual results may differ materially from those in the forward-looking statements.

CONSOLIDATED BALANCE SHEETS

| <i>(Dollars in thousands)</i> | <i>December 31, 1999</i> | <i>December 31, 1998</i> |
|--|------------------------------|------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 7,409 | \$ 13,220 |
| Receivables, less allowances of \$19,057 (\$18,333 at December 31, 1998) | 345,385 | 324,164 |
| Inventories (Note 3) | 285,395 | 307,382 |
| Prepaid expenses and other current assets | 33,711 | 31,107 |
| Total current assets | 671,900 | 675,873 |
| Property, plant and equipment: | | |
| Land | 18,930 | 16,757 |
| Buildings and improvements | 204,177 | 188,874 |
| Machinery and equipment | 322,527 | 294,282 |
| | 545,634 | 499,913 |
| Less accumulated depreciation | 247,888 | 206,136 |
| Net property, plant and equipment | 297,746 | 293,777 |
| Intangible assets (Note 4) | 303,446 | 316,998 |
| Other assets | 15,742 | 16,556 |
| | <u>\$1,288,834</u> | <u>\$1,303,204</u> |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 73,617 | \$ 67,381 |
| Accrued employee compensation | 28,450 | 35,758 |
| Accrued interest expense | 1,762 | 5,608 |
| Other accrued expenses | 50,035 | 57,978 |
| Total current liabilities | 153,864 | 166,725 |
| Long-term debt (Note 5) | 535,100 | 589,200 |
| Other long-term liabilities | 125,673 | 133,770 |
| Shareholders' equity: | | |
| Preferred stock, authorized 10,000,000 shares, no par value — issued, none | — | — |
| Common stock, authorized 100,000,000 shares, \$1.00 stated value — issued 52,277,066 shares at December 31, 1999 and 1998 (Note 6) | 52,277 | 52,277 |
| Paid-in capital | 120,326 | 127,513 |
| Retained earnings | 356,572 | 244,662 |
| Treasury stock at cost (2,907,059 shares at December 31, 1999 and 525,000 shares at December 31, 1998) | (54,978) | (10,943) |
| Total shareholders' equity | 474,197 | 413,509 |
| | <u>\$1,288,834</u> | <u>\$1,303,204</u> |

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

| (Dollars in thousands except per share data) | Year Ended December 31, | | |
|--|-------------------------|-------------|-------------|
| | 1999 | 1998 | 1997 |
| Net sales | \$2,088,112 | \$1,960,250 | \$1,808,276 |
| Costs and expenses: | | | |
| Cost of operations | 1,498,622 | 1,406,434 | 1,319,455 |
| Selling, general and administrative expenses | 321,205 | 314,837 | 286,086 |
| Depreciation and amortization (includes \$13,155, \$13,670 and \$16,369 related to fair value adjustments) | 56,528 | 55,469 | 55,995 |
| Earnings from operations | 211,757 | 183,510 | 146,740 |
| Interest expense | 37,577 | 43,455 | 42,747 |
| Other income, net | 2,584 | 12,088 | 3,261 |
| Earnings before income tax expense | 176,764 | 152,143 | 107,254 |
| Income tax expense (Note 7) | 64,854 | 54,205 | 40,201 |
| Net earnings | \$ 111,910 | \$ 97,938 | \$ 67,053 |
| Net earnings per common share — basic (Note 6) | \$ 2.20 | \$ 1.88 | \$ 1.19 |
| Net earnings per common share — diluted (Note 6) | \$ 2.14 | \$ 1.82 | \$ 1.15 |

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| (Dollars in thousands) | Year Ended December 31, | | |
|--|-------------------------|-----------|-----------|
| | 1999 | 1998 | 1997 |
| Cash flows from operating activities: | | | |
| Net earnings | \$ 111,910 | \$ 97,938 | \$ 67,053 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | |
| Depreciation of property, plant and equipment | 44,468 | 43,409 | 43,935 |
| Amortization of intangible and other assets | 12,060 | 12,060 | 12,060 |
| Noncash interest and other expense | 2,172 | 2,107 | 1,297 |
| Increase in receivables | (21,221) | (30,189) | (10,558) |
| (Increase) decrease in inventories | 21,987 | (20,336) | (5,939) |
| (Increase) decrease in prepaid expenses and intangible and other assets | (2,872) | (3,055) | 3,655 |
| Increase (decrease) in accounts payable, accrued interest expense and other accrued expenses | (12,861) | 29,704 | (7,405) |
| Increase (decrease) in net deferred tax liabilities | (5,390) | 2,624 | (8,056) |
| Increase (decrease) in other long-term liabilities | (1,687) | (2,956) | 7,669 |
| Net cash provided by operating activities | 148,566 | 131,306 | 103,711 |
| Cash flows from investing activities: | | | |
| Proceeds from the disposal of assets | 451 | 1,233 | 732 |
| Additions to property, plant and equipment | (48,951) | (44,358) | (40,004) |
| Net cash used by investing activities | (48,500) | (43,125) | (39,272) |
| Cash flows from financing activities: | | | |
| Payments for debt issuance costs | — | (1,684) | (3,342) |
| Additions to long-term debt | — | 218,000 | 220,000 |
| Payments of long-term debt | (54,100) | (295,800) | (124,800) |
| Proceeds from the issuance of common stock | — | 3,192 | 10,734 |
| Payment for the repurchase and retirement of common stock | — | — | (168,056) |
| Proceeds from the issuance of treasury stock | 7,943 | — | — |
| Purchase of treasury stock | (59,720) | (10,943) | — |
| Payments for the repurchase of common stock warrants | — | — | (5,187) |
| Payments for common stock offering expenses of selling shareholders | — | — | (879) |
| Net cash used by financing activities | (105,877) | (87,235) | (71,530) |
| Net increase (decrease) in cash and cash equivalents | (5,811) | 946 | (7,091) |
| Cash and cash equivalents at beginning of period | 13,220 | 12,274 | 19,365 |
| Cash and cash equivalents at end of period | \$ 7,409 | \$ 13,220 | \$ 12,274 |
| Supplemental Disclosure: | | | |
| Cash payments for income taxes, net | \$ 68,100 | \$ 49,889 | \$ 40,639 |
| Cash payments for interest | \$ 40,070 | \$ 42,974 | \$ 40,707 |

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| <i>(Dollars in thousands)</i> | <i>Common Stock</i> | <i>Paid-In Capital</i> | <i>Retained Earnings</i> | <i>Treasury Stock</i> | <i>Total</i> |
|---|-------------------------|----------------------------|------------------------------|---------------------------|--------------|
| Balance December 31, 1996 | \$ 61,432 | \$ 278,554 | \$ 79,671 | \$ — | \$ 419,657 |
| Net earnings | | | 67,053 | | 67,053 |
| Common stock activity: | | | | | |
| Repurchase of common stock – 10,842,299 shares | (10,842) | (157,214) | | | (168,056) |
| Stock plans activity (Note 6) | 174 | 1,302 | | | 1,476 |
| Warrant exercises – 1,298,498 shares | 1,298 | 7,960 | | | 9,258 |
| Warrant purchases – 650,071 shares | | (5,187) | | | (5,187) |
| Retirement of common stock – 58,824 shares | (59) | 59 | | | — |
| Common stock offering expenses of selling shareholders | | (879) | | | (879) |
| Balance December 31, 1997 | 52,003 | 124,595 | 146,724 | — | 323,322 |
| Net earnings | | | 97,938 | | 97,938 |
| Common stock activity: | | | | | |
| Stock plans activity (Note 6) | 274 | 2,918 | | | 3,192 |
| Purchase of treasury stock – 525,000 shares | | | | (10,943) | (10,943) |
| Balance December 31, 1998 | 52,277 | 127,513 | 244,662 | (10,943) | 413,509 |
| Net earnings | | | 111,910 | | 111,910 |
| Common stock activity: | | | | | |
| Stock plans activity (Note 6) | | (7,187) | | 15,685 | 8,498 |
| Purchase of treasury stock – 3,123,200 shares | | | | (59,720) | (59,720) |
| Balance December 31, 1999 | \$ 52,277 | \$ 120,326 | \$ 356,572 | \$ (54,978) | \$ 474,197 |

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

1 | The Company

Furniture Brands International, Inc. (referred to herein as the "Company") is the largest home furniture manufacturer in the United States. During the year ended December 31, 1999, the Company had three primary operating subsidiaries: Broyhill Furniture Industries, Inc.; Lane Furniture Industries, Inc.; and Thomasville Furniture Industries, Inc.

Substantially all of the Company's sales are made to unaffiliated furniture retailers. The Company has a diversified customer base with no one customer accounting for 10% or more of consolidated net sales and no particular concentration of credit risk in one economic section. Foreign operations and net sales are not material.

2 | Significant Accounting Policies

The significant accounting policies of the Company are set forth below.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all its subsidiaries. All material intercompany transactions are eliminated in consolidation. The Company's fiscal year ends on December 31. The operating companies included in the consolidated financial statements report their results of operations as of the Saturday closest to December 31. Accordingly, the results of operations will periodically include a 53-week fiscal year. Fiscal years 1999, 1998, and 1997 were 52-week, 52-week and 53-week years, respectively.

Cash and Cash Equivalents

The Company considers all short-term investments with an original maturity of three months or less to be cash equivalents. Short-term investments are recorded at amortized cost, which approximates market.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost when acquired. Depreciation is calculated using both accelerated and straight-line methods based on the estimated useful lives of the respective assets, which generally range from 3 to 45 years for buildings and improvements and from 3 to 12 years for machinery and equipment.

Intangible Assets

The excess of cost over net assets acquired in connection with the acquisition of Thomasville totaled \$93,110. This intangible asset is being amortized on a straight-line basis over a 40-year period.

The Company emerged from Chapter 11 reorganization effective with the beginning of business on August 3, 1992. In accordance with generally accepted accounting principles, the Company was required to adopt "fresh-start" reporting which included adjusting all assets and liabilities to their fair values as of the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

effective date. The ongoing impact of the adoption of fresh-start reporting is reflected in the financial statements for all years presented.

As a result of adopting fresh-start reporting, the Company recorded reorganization value in excess of amounts allocable to identifiable assets of approximately \$146,000. This intangible asset is being amortized on a straight-line basis over a 20-year period.

Also in connection with the adoption of fresh-start reporting, the Company recorded approximately \$156,800 in fair value of trademarks and trade names based upon an independent appraisal. Such trademarks and trade names are being amortized on a straight-line basis over a 40-year period.

Long-lived assets are reviewed for impairment whenever events or changes in business circumstances indicate the carrying value of the assets may not be recoverable. Impairment losses are recognized if expected future cash flows of the related assets are less than their carrying values.

Fair Value of Financial Instruments

The Company considers the carrying amounts of cash and cash equivalents, receivables, and accounts payable to approximate fair value because of the short maturity of these financial instruments.

Amounts outstanding under long-term debt agreements are considered to be carried on the financial statements at their estimated fair values because they were entered into recently and/or accrue interest at rates which generally fluctuate with interest rate trends.

Interest rate swap agreements used by the Company to fix the interest rate on a portion of its floating rate long-term debt are accounted for on the accrual basis. Amounts to be paid or received under the interest rate swap agreements are recognized in income as adjustments to interest expense. The fair value of the interest rate swap agreements at December 31, 1999 exceeded the book value by approximately \$4.4 million. The fair value of the interest rate swap agreements is based upon market quotes from the counterparties.

Revenue Recognition

The Company recognizes revenue when finished goods are shipped with appropriate provisions for returns and uncollectible accounts.

Income Taxes

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

Stock-Based Compensation

The Company accounts for stock-based compensation using the intrinsic value method.

Reclassification

Certain 1998 and 1997 amounts have been reclassified to conform to the 1999 presentation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

3 Inventories Inventories are summarized as follows:

| | December 31, 1999 | December 31, 1998 |
|-------------------|----------------------|----------------------|
| Finished products | \$112,389 | \$122,993 |
| Work-in-process | 58,479 | 57,915 |
| Raw materials | 114,527 | 126,474 |
| | <u>\$285,395</u> | <u>\$307,382</u> |

4 Intangible Assets Intangible assets include the following:

| | December 31, 1999 | December 31, 1998 |
|--|----------------------|----------------------|
| Intangible assets, at cost: | | |
| Reorganization value in excess of amounts allocable to identifiable assets | \$146,063 | \$146,063 |
| Trademarks and trade names | 156,828 | 156,828 |
| Excess of cost over net assets acquired | 93,110 | 93,110 |
| | <u>396,001</u> | <u>396,001</u> |
| Less accumulated amortization | 92,555 | 79,003 |
| | <u>\$303,446</u> | <u>\$316,998</u> |

5 Long-Term Debt Long-term debt consists of the following:

| | December 31, 1999 | December 31, 1998 |
|---------------------------|----------------------|----------------------|
| Secured credit agreement: | | |
| Revolving credit facility | \$317,500 | \$370,000 |
| Term loan facility | 200,000 | 200,000 |
| Other | 17,600 | 19,200 |
| | <u>\$535,100</u> | <u>\$589,200</u> |

The following discussion summarizes certain provisions of the long-term debt.

Secured Credit Agreement

The Secured Credit Agreement consists of a revolving credit facility and a term loan facility. The revolving credit facility is a five-year facility with a commitment of \$600,000. The revolving credit facility allows for issuance of letters of credit and cash borrowings. Letter of credit outstandings are limited to no more than \$60,000, with cash borrowings limited only by the facility's maximum availability less letters of credit outstanding.

Under the letter of credit facility, a fee of 0.875% per annum (subject to reduction based upon the Company achieving certain leverage ratios) is assessed for the account of the lenders ratably. A further fee of 0.125% is assessed on standby letters of credit representing a facing fee. A customary administrative charge for processing letters of credit is also payable to the relevant issuing bank. Letter of credit fees are payable quarterly in arrears.

Cash borrowings under the revolving credit facility bear interest at a base rate or at an adjusted London Interbank Offered Rate (LIBOR) plus an applicable margin which varies, depending upon the type of loan the Company executes. The applicable margin over the base rate and LIBOR is subject to adjustment based upon achieving certain leverage ratios. At December 31, 1999 loans outstanding under the revolving credit

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

facility consisted of \$310,000 based on the LIBOR rate and \$7,500 based on the base rate, for a weighted average interest rate of 7.04%.

At December 31, 1999, there were \$317,500 of cash borrowings and \$39,789 in letters of credit outstanding under the revolving credit facility, leaving an excess of \$242,711 available under the facility.

The revolving credit facility has no mandatory principal payments; however, the commitment matures on September 15, 2001. In addition, the facility requires principal payments from a portion of the net proceeds realized from (i) the sale, conveyance or other disposition of collateral securing the debt, or (ii) the sale by the Company for its own account of additional subordinated debt and/or shares of its preferred and/or common stock.

On June 27, 1997, the Company amended the Secured Credit Agreement to include a new term loan facility of \$200,000. The term loan facility is a non-amortizing ten-year facility, bearing interest at a base rate plus 0.75% or at an adjusted LIBOR rate plus 1.75%, depending upon the type of loan the Company executes. At December 31, 1999, all loans outstanding under the term loan facility were based on the LIBOR rate at an interest rate of 8.31%.

The common stock of the Company's principal subsidiaries and the accounts receivable and inventories of the subsidiaries have been pledged as security for the Secured Credit Agreement. The Secured Credit Agreement defines events of default and contains a number of restrictive covenants, including covenants limiting capital expenditures and incurrence of debt, and requiring the Company to achieve certain financial ratios, some of which become more restrictive over time.

Other

Other long-term debt consists of various industrial revenue bonds with interest rates ranging from approximately 4.0% to 9.0%. Mandatory principal payments are required through 2008.

Interest Rate Swap Agreements

The Company has entered into various interest rate swap agreements to reduce the impact of changes in interest rates on its floating rate long-term debt. The following table summarizes the terms of the interest rate swap agreements in effect during 1999.

| <i>Notional Amount</i> | <i>Maturity Date</i> | <i>Fixed Rate</i> | <i>Floating Rate</i> |
|------------------------|----------------------|-------------------|----------------------|
| \$100,000 | February 1999 | 5.14% | 3-month LIBOR |
| \$200,000 | February 1999 | 5.14% | 3-month LIBOR |
| \$300,000 | January 2002 | 5.50% | 3-month LIBOR |

In June 1999, the Company executed a partial unwind of \$100,000 of the \$300,000 swap agreement maturing in January 2002. The gain from the transaction is being amortized over the remaining life of the swap. The swap agreements effectively convert a portion of the Company's floating rate long-term debt to a fixed rate. The Company pays the counterparties the fixed rate and receives payments based upon the floating rate. The Company is exposed to credit loss in the event of nonperformance by the counterparties; however, nonperformance is not anticipated.

Other Information

Maturities of long-term debt are \$0, \$317,500, \$0, \$0, and \$0 for years 2000 through 2004, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

6 Common Stock

The Company's restated certificate of incorporation includes authorization to issue up to 100.0 million shares of common stock with a \$1.00 per share stated value. As of December 31, 1999, 52,277,066 shares of common stock were issued and outstanding. It is not presently anticipated that dividends will be paid on common stock in the foreseeable future and certain of the debt instruments to which the Company is a party restrict the payment of dividends.

Since October 1998, the Board of Directors has authorized the repurchase of up to \$105,000 of the Company's common stock with the latest authorization expiring in September 2000. As of December 31, 1999, the Company has repurchased 3,648,200 shares for \$70,663.

Shares of common stock were reserved for the following purposes at December 31, 1999:

| | <i>Number of Shares</i> |
|-----------------------|-------------------------|
| Common stock options: | |
| Granted | 4,027,063 |
| Available for grant | 2,330,986 |
| | <u>6,358,049</u> |

On April 29, 1999, stockholders approved the 1999 Long-Term Incentive Plan. The plan provided for a total of 2,250,000 shares plus all remaining shares available for grant or which become available for grant due to cancellation under the 1992 Stock Option Plan. The plan is administered by the Executive Compensation and Stock Option Committee of the Board of Directors and permits certain key employees to be granted nonqualified options, performance-based options, restricted stock, or combinations thereof. Options must be issued at market value on the date of grant and expire in a maximum of ten years.

In 1999, the Company granted 79,000 shares of restricted stock. The restricted shares vest over various periods from 2 to 5 years. The deferred compensation expense is amortized to expense over the period of time the restrictions are in place and the unamortized portion is classified as a reduction of paid-in-capital in the Company's consolidated balance sheets.

Changes in options granted and outstanding are summarized as follows:

| | <i>Year Ended December 31,</i> | | | | | |
|--|--------------------------------|----------------------|---------------|----------------------|---------------|----------------------|
| | <i>1999</i> | | <i>1998</i> | | <i>1997</i> | |
| | <i>Shares</i> | <i>Average Price</i> | <i>Shares</i> | <i>Average Price</i> | <i>Shares</i> | <i>Average Price</i> |
| Beginning of period | 4,018,581 | \$ 9.37 | 3,897,930 | \$ 7.48 | 3,859,476 | \$ 6.63 |
| Granted | 772,600 | 23.49 | 436,500 | 23.02 | 292,500 | 16.36 |
| Exercised | (662,141) | 6.02 | (273,546) | 4.81 | (173,964) | 3.93 |
| Cancelled | (101,977) | 7.91 | (42,303) | 5.56 | (80,082) | 6.62 |
| End of period | 4,027,063 | \$ 12.67 | 4,018,581 | \$ 9.37 | 3,897,930 | \$ 7.48 |
| Exercisable at end of period | 2,342,822 | | 2,261,639 | | 1,979,287 | |
| Weighted average fair value of options granted | | \$ 13.03 | | \$ 11.04 | | \$ 7.54 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

Had compensation cost for the Company's stock-based compensation plan been determined consistent with SFAS No. 123, the Company's net earnings and net earnings per share would have been as follows:

| | Year Ended December 31, | | |
|----------------------------------|-------------------------|----------|----------|
| | 1999 | 1998 | 1997 |
| Net earnings | | | |
| As reported | \$ 111,910 | \$97,938 | \$67,053 |
| Pro forma | 108,600 | 96,180 | 65,907 |
| Net earnings per share – basic | | | |
| As reported | \$ 2.20 | \$ 1.88 | \$ 1.19 |
| Pro forma | 2.13 | 1.85 | 1.17 |
| Net earnings per share – diluted | | | |
| As reported | \$ 2.14 | \$ 1.82 | \$ 1.15 |
| Pro forma | 2.10 | 1.80 | 1.13 |

The weighted average fair value of options granted is estimated as of the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 5.00%, 5.50% and 6.00% in 1999, 1998, and 1997, respectively; expected dividend yield of 0% for all years; expected life of 7 years for all years and expected volatility of 46%, 35%, and 30% for 1999, 1998, and 1997, respectively.

Summarized information regarding stock options outstanding and exercisable at December 31, 1999 follows:

| Range of Exercise Prices | Outstanding | | | Exercisable | |
|--------------------------|-------------|--------------------------|---------------|-------------|---------------|
| | Shares | Average Contractual Life | Average Price | Shares | Average Price |
| Up to \$10 | 1,868,663 | 3.3 | \$ 5.55 | 1,658,922 | \$ 5.35 |
| \$10 – \$20 | 1,003,100 | 5.9 | 12.82 | 595,600 | 12.79 |
| Over \$20 | 1,155,300 | 7.7 | 24.06 | 88,300 | 24.66 |
| | 4,027,063 | 5.2 | \$12.67 | 2,342,822 | \$ 7.97 |

Weighted average shares used in the computation of basic and diluted net earnings per common share for 1999, 1998, and 1997 are as follows:

| | Year Ended December 31, | | |
|--|-------------------------|------------|------------|
| | 1999 | 1998 | 1997 |
| Weighted average shares used for basic net earnings per common share | 50,967,973 | 52,095,451 | 56,438,465 |
| Effect of dilutive securities: | | | |
| Stock options | 1,366,611 | 1,713,515 | 1,447,624 |
| Warrants | — | — | 587,105 |
| Weighted average shares used for diluted net earnings per common share | 52,334,584 | 53,808,966 | 58,473,194 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

Excluded from the computation of diluted net earnings per common share were options to purchase 1,100,300 shares at an average price of \$24.21 per share during 1999.

At December 31, 1996, the Company had outstanding approximately 2.0 million warrants to purchase common stock at \$7.13 per share. The warrants, which included a five-year call protection which expired on August 3, 1997, were redeemed on August 15, 1997.

7 | Income Taxes

Income tax expense was comprised of the following:

| | Year Ended December 31, | | |
|-----------------|-------------------------|-----------------|-----------------|
| | 1999 | 1998 | 1997 |
| Current | | | |
| Federal | \$62,108 | \$46,257 | \$43,680 |
| State and local | 8,136 | 5,324 | 4,577 |
| | 70,244 | 51,581 | 48,257 |
| Deferred | (5,390) | 2,624 | (8,056) |
| | <u>\$64,854</u> | <u>\$54,205</u> | <u>\$40,201</u> |

The following table reconciles the differences between the federal corporate statutory rate and the Company's effective income tax rate:

| | Year Ended December 31, | | |
|--|-------------------------|--------------|--------------|
| | 1999 | 1998 | 1997 |
| Federal corporate statutory rate | 35.0% | 35.0% | 35.0% |
| State and local income taxes, net of federal tax benefit | 2.5 | 1.8 | 2.3 |
| Amortization of excess reorganization value | 1.5 | 1.7 | 2.4 |
| Other | (2.3) | (2.9) | (2.2) |
| Effective income tax rate | <u>36.7%</u> | <u>35.6%</u> | <u>37.5%</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

The sources of the tax effects for temporary differences that give rise to the deferred tax assets and liabilities were as follows:

| | December 31, 1999 | December 31, 1998 |
|--|----------------------|----------------------|
| Deferred tax assets: | | |
| Expense accruals | \$ 17,873 | \$ 20,296 |
| Valuation reserves | 10,318 | 6,737 |
| Employee postretirement benefits other than pensions | 2,927 | 3,134 |
| Inventory costs capitalized | 2,757 | 3,429 |
| Employee pension plans | 2,121 | 2,139 |
| Other | 2,632 | 1,648 |
| Total deferred tax assets | 38,628 | 37,383 |
| Deferred tax liabilities: | | |
| Fair value adjustments | (71,422) | (73,867) |
| Depreciation | (8,428) | (7,924) |
| Fair market value adjustments — accounts receivable | (5,060) | (7,421) |
| Other | (10,484) | (10,327) |
| Total deferred tax liabilities | (95,394) | (99,539) |
| Net deferred tax liabilities | \$(56,766) | \$(62,156) |

The net deferred tax liabilities are included in the consolidated balance sheets as follows:

| | December 31, 1999 | December 31, 1998 |
|---|----------------------|----------------------|
| Prepaid expenses and other current assets | \$ 25,605 | \$ 24,914 |
| Other long-term liabilities | (82,371) | (87,070) |
| | \$(56,766) | \$(62,156) |

8 | Employee Benefits

The Company sponsors or contributes to retirement plans covering substantially all employees. The total cost of all plans for 1999, 1998, and 1997 was \$5,649, \$7,773, and \$8,412, respectively.

Company-Sponsored Defined Benefit Plans

Annual cost for defined benefit plans is determined using the projected unit credit actuarial method. Prior service cost is amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits.

It is the Company's practice to fund pension costs to the extent that such costs are tax deductible and in accordance with ERISA. The assets of the various plans include corporate equities, government securities,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

corporate debt securities and insurance contracts. The table below summarizes the funded status of the Company-sponsored defined benefit plans.

| | December 31, 1999 | December 31, 1998 |
|--|----------------------|----------------------|
| Change in projected benefit obligation: | | |
| Projected benefit obligation – beginning of year | \$284,498 | \$273,487 |
| Service cost | 8,379 | 7,419 |
| Interest cost | 21,905 | 19,856 |
| Actuarial loss | 17,204 | 168 |
| Benefits paid | (17,166) | (16,432) |
| Other | (1,064) | — |
| Projected benefit obligation – end of year | \$313,756 | \$284,498 |
| Change in plan assets: | | |
| Fair value of plan assets – beginning of year | \$332,541 | \$306,797 |
| Actual return on plan assets | 44,731 | 41,591 |
| Employer contributions | 687 | 585 |
| Benefits paid | (17,166) | (16,432) |
| Other | 1,097 | — |
| Fair value of plan assets – end of year | \$361,890 | \$332,541 |
| Funded status | \$ 48,134 | \$ 48,043 |
| Unrecognized net gain | (49,006) | (49,236) |
| Unrecognized prior service cost | 1,480 | 975 |
| Prepaid (accrued) pension cost | \$ 608 | \$ (218) |

Net periodic pension cost for 1999, 1998 and 1997 included the following components:

| | Year Ended December 31, | | |
|---|-------------------------|----------|----------|
| | 1999 | 1998 | 1997 |
| Service cost-benefits earned during the period | \$ 8,379 | \$ 7,419 | \$ 7,120 |
| Interest cost on the projected benefit obligation | 21,905 | 19,856 | 19,026 |
| Expected return on plan assets | (29,193) | (25,464) | (23,115) |
| Net amortization and deferral | (1,230) | (224) | 212 |
| Net periodic pension expense (income) | \$ (139) | \$ 1,587 | \$ 3,243 |

Employees are covered primarily by noncontributory plans, funded by Company contributions to trust funds, which are held for the sole benefit of employees. Monthly retirement benefits are based upon service and pay with employees becoming vested upon completion of five years of service.

The expected long-term rate of return on plan assets was 9.0% in 1999 and 8.5% in 1998 and 1997. Measurement of the projected benefit obligation was based upon a weighted average discount rate of 7.25% and a long-term rate of compensation increase of 4.5% for all years presented.

Other Retirement Plans and Benefits

In addition to defined benefit plans, the Company makes contributions to defined contribution plans and sponsors employee savings plans. The cost of these plans is included in the total cost for all plans reflected above.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

9 Commitments and Contingent Liabilities

Certain of the Company's real properties and equipment are operated under lease agreements. Rental expense under operating leases totaled \$17,417, \$16,537, and \$15,699 for 1999, 1998, and 1997, respectively. Annual minimum payments under operating leases are \$13,928, \$11,043, \$9,586, \$8,286, and \$6,401 for 2000 through 2004, respectively.

The Company has provided guarantees related to store leases for certain independent dealers opening Thomasville Home Furnishings Stores. The total future lease payments guaranteed at December 31, 1999 were \$20,157.

The Company is or may become a defendant in a number of pending or threatened legal proceedings in the ordinary course of business. In the opinion of management, the ultimate liability, if any, of the Company from all such proceedings will not have a material adverse effect upon the consolidated financial position or results of operations of the Company and its subsidiaries.

10 Quarterly Financial Information (Unaudited)

Following is a summary of unaudited quarterly information:

| | Fourth Quarter | Third Quarter | Second Quarter | First Quarter |
|--------------------------------|-------------------|------------------|-------------------|------------------|
| Year ended December 31, 1999: | | | | |
| Net sales | \$521,169 | \$512,980 | \$520,061 | \$533,902 |
| Gross profit | 135,706 | 134,679 | 138,236 | 141,691 |
| Net earnings | \$ 29,151 | \$ 27,460 | \$ 27,592 | \$ 27,707 |
| Net earnings per common share: | | | | |
| Basic | \$ 0.59 | \$ 0.53 | \$ 0.54 | \$ 0.54 |
| Diluted | \$ 0.58 | \$ 0.52 | \$ 0.52 | \$ 0.52 |
| Common stock price range: | | | | |
| High | \$ 22.00 | \$ 27.50 | \$ 27.88 | \$ 27.88 |
| Low | \$ 17.44 | \$ 17.06 | \$ 19.63 | \$ 20.94 |
| Year ended December 31, 1998: | | | | |
| Net sales | \$497,628 | \$487,178 | \$470,146 | \$505,298 |
| Gross profit | 130,996 | 128,258 | 125,435 | 130,823 |
| Net earnings | \$ 24,669 | \$ 30,548 | \$ 21,107 | \$ 21,614 |
| Net earnings per common share: | | | | |
| Basic | \$ 0.48 | \$ 0.58 | \$ 0.40 | \$ 0.41 |
| Diluted | \$ 0.46 | \$ 0.57 | \$ 0.39 | \$ 0.40 |
| Common stock price range: | | | | |
| High | \$ 27.25 | \$ 30.69 | \$ 33.69 | \$ 32.56 |
| Low | \$ 13.50 | \$ 19.50 | \$ 23.06 | \$ 19.56 |

The Company has not paid cash dividends on its common stock during the three years ended December 31, 1999. The closing market price of the Company's common stock on December 31, 1999 was \$22.00 per share.

The Board of Directors and Shareholders
Furniture Brands International, Inc.:

We have audited the accompanying consolidated balance sheets of Furniture Brands International, Inc. and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Furniture Brands International, Inc. and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999, in conformity with generally accepted accounting principles.

KPMG LLP

St. Louis, Missouri
January 27, 2000

FIVE-YEAR CONSOLIDATED FINANCIAL REVIEW

| (Dollars in thousands except per share data) | Year Ended December 31, | | | | |
|--|-------------------------|----------------------|-------------|-------------|----------------------|
| | 1999 | 1998 | 1997 | 1996 | 1995 ^a |
| Summary of operations: | | | | | |
| Net sales | \$2,088,112 | \$1,960,250 | \$1,808,276 | \$1,696,795 | \$1,073,889 |
| Gross profit | 550,312 | 515,512 | 450,690 | 431,473 | 291,237 |
| Interest expense | 37,577 | 43,455 | 42,747 | 45,217 | 33,845 |
| Earnings before income tax expense, and extraordinary item | 176,764 | 152,143 | 107,254 | 88,292 | 57,038 |
| Income tax expense | 64,854 | 54,205 | 40,201 | 34,070 | 22,815 |
| Earnings from continuing operations | 111,910 | 97,938 ^c | 67,053 | 54,222 | 34,223 ^b |
| Extraordinary item | — | — | — | (7,417) | (5,815) |
| Net earnings | \$ 111,910 | \$ 97,938 | \$ 67,053 | \$ 46,805 | \$ 28,408 |
| Per share of common stock — diluted: | | | | | |
| Earnings from continuing operations | \$ 2.14 | \$ 1.82 ^c | \$ 1.15 | \$ 0.88 | \$ 0.67 ^b |
| Extraordinary item | — | — | — | (0.12) | (0.11) |
| Net earnings | \$ 2.14 | \$ 1.82 | \$ 1.15 | \$ 0.76 | \$ 0.56 |
| Weighted average common shares — diluted (in thousands) | 52,335 | 53,809 | 58,473 | 61,946 | 50,639 |
| Other information: | | | | | |
| Working capital | \$ 518,036 | \$ 509,148 | \$ 482,288 | \$ 462,661 | \$ 455,036 |
| Property, plant and equipment, net | 297,746 | 293,777 | 294,061 | 301,962 | 306,406 |
| Capital expenditures | 48,951 | 44,358 | 40,004 | 40,344 | 35,616 |
| Total assets | 1,288,834 | 1,303,204 | 1,257,236 | 1,269,204 | 1,291,739 |
| Long-term debt | 535,100 | 589,200 | 667,800 | 572,600 | 705,040 |
| Shareholders' equity | \$ 474,197 | \$ 413,509 | \$ 323,322 | \$ 419,657 | \$ 301,156 |

^a On December 31, 1995, the Company purchased Thomasville. The Company's results of operations for 1995 do not include any of the operations of Thomasville, since the acquisition occurred as of the last business day of the year.

^b Earnings from continuing operations before gain on insurance settlement, net of income tax expense, and earnings per common share from continuing operations before gain on insurance settlement, net of income tax expense, were \$29,463 and \$0.58, respectively.

^c Earnings from continuing operations before nonrecurring gain, net of income tax expense, and earnings per common share from continuing operations before nonrecurring gain, net of income tax expense, were \$90,077 and \$1.67, respectively.

BOARD OF DIRECTORS

Katherine Button Bell ²
Vice-President of Emerson Electric Co.

Wilbert G. Holliman ¹
Chairman of the Board, President and Chief Executive Officer of the Company

Bruce A. Karsh ^{2,3}
President of Oaktree Capital Management, LLC

Donald E. Lasater ^{1,3}
Retired Chairman of the Board and Chief Executive Officer of Mercantile Bancorporation Inc.

Lee M. Liberman ^{2*,3}
Retired Chairman of the Board and Chief Executive Officer of Laclede Gas Company

Richard B. Loynd ^{1*}
Former Chairman of the Board of the Company

Malcolm Portera ²
President of Mississippi State University

Albert E. Suter ^{1,3*}
Chief Administrative Officer of Emerson Electric Co.

Committees of the Board

¹ Executive Committee

² Audit Committee

³ Executive Compensation and Stock Option Committee

(* indicates Committee Chairman)

OFFICERS

Principal Corporate Officers

Wilbert G. Holliman
Chairman of the Board, President and Chief Executive Officer

Lynn Chipperfield
Senior Vice-President, Secretary and Chief Administrative Officer

David P. Howard
Vice-President, Treasurer and Chief Financial Officer

Steven W. Alstadt
Controller and Chief Accounting Officer

Jerry L. Lybarger
General Counsel and Assistant Secretary

Presidents of Operating Companies

Dennis R. Burgette
Broyhill Furniture Industries, Inc.

John T. Foy
Lane Furniture Industries, Inc.

Christian J. Pfaff
Thomasville Furniture Industries, Inc.

INVESTOR INFORMATION

Transfer Agent and Registrar for Common Stock

The Bank of New York
Church Street Station
New York, New York 10286
(800) 524-4458

Exchange Listing

Common shares are listed on the New York Stock Exchange (trading symbol: FBN)

Corporate Offices

101 South Hanley Road
St. Louis, Missouri 63105-3493
(314) 863-1100

Annual Meeting

The Annual Meeting of Shareholders will be at 10:00 a.m. on Thursday, April 27, 2000, at the Ritz-Carlton Hotel, 100 Carondelet Plaza, St. Louis, Missouri.

Form 10-K Annual Report

Shareholders may obtain a copy of the current Form 10-K filed with the Securities and Exchange Commission by writing to the Treasurer of Furniture Brands International at the Corporate Offices.

Independent Auditors

KPMG LLP
10 S. Broadway, Suite 900
St. Louis, Missouri 63102-1761
(314) 444-1400

Internet Access

Corporate news releases, Form 10-K and Form 10-Q, the annual report and other information about the Company and its subsidiaries are available through the Company's Internet Web site: www.furniturebrands.com.

Furniture Brands
INTERNATIONAL

St. Louis, Missouri